

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 3, 2015/2016

**BAC2634 – FINANCIAL ACCOUNTING & REPORTING II**

(All Section / Groups)

3 JUNE 2016

15.00 PM – 18.00 PM

(3 Hours)

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### INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions only.
2. Answer ALL questions in the answer booklet provided.

**QUESTION 1****PART A**

Terus Berjaya Berhad (TBB) specializes in the construction of commercial and industrial buildings. The contractor is experienced in bidding long-term construction projects that lasting fifteen to twenty-four months. TBB began work on at the beginning of 2015 with contract price of RM5,200,000. The estimated costs to complete in 2015 included labor costs of RM350,000, materials and subcontractor costs of RM740,000, indirect cost of RM630,000 and plant's depreciation of RM80,000. At the end of the first year, the following was the status of the contract:

Billings to date	RM1,000,000
Costs incurred to date:	
Labor	RM 370,000
Materials and subcontractor	715,000
Indirect costs	180,000
Depreciation	10,000

The costs incurred to date for materials and subcontractor included standard electrical and mechanical materials stored on the job site, but not yet installed, costing RM75,000 until end of the year. TBB only received cash of RM860,000 from customers.

**Instructions:**

- (a) In compliance with MFRS 111 *Construction Contracts*, determine the amount of gross profit that would be reported on this contract at the end of 2015. (5 marks)
- (b) Prepare the extract Statement of Profit or Loss and Statement of Financial Position for 2015. (5 marks)

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**PART B**

MFRS 111 *Construction Contracts* deals with the accounting for revenue and costs associated with construction activity that begins in one period and ends in another. In accounting for long-term construction contracts, the method commonly used is the percentage-of-completion.

**Instructions:**

- (a) Discuss how the profit on long-term construction contracts are recognized and computed under this method. (5 marks)
- (b) Explain how costs and billings are reflected on the financial position under the percentage-of-completion method. (5 marks)

(Total: 20 marks)

**QUESTION 2**

Standbuy Berhad is a publicly listed company. The following is the Statement of Profit or Loss and the Statements of Financial Position for the company for the year 2015:

Standbuy Bhd Statement of Profit or Loss for the year ended 31 December 2015		
	<u>RM'000</u>	<u>RM'000</u>
Revenues		50,800
Cost of goods sold	6,000	
Operating expenses (including depreciation)	17,200	
Loss on sale of equipment	500	
Interest expense	710	(24,410)
Income before income tax		26,390
Income tax expense		(6,600)
Net income		<u>19,790</u>

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Standbuy Bhd  
Statements of Financial Position  
as at 31 December 2014 and 2015

	<u>2015</u>	<u>2014</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>Noncurrent Assets</b>		
Land	13,000	2,000
Buildings	16,000	4,000
Accumulated depreciation-buildings	(1,100)	(500)
Equipment	2,700	1,000
Accumulated depreciation-equipment	(300)	(100)
<b>Current Assets</b>		
Cash	33,550	20,640
Accounts receivable	3,100	4,100
Inventory	2,800	2,300
Prepaid expenses	700	300
<b>TOTAL</b>	<u><u>70,450</u></u>	<u><u>33,740</u></u>
 <b>Equity and Liabilities</b>		
Share capital-Ordinary shares	4,000	2,000
Retained earnings	27,990	10,100
Long-term bonds payable	35,160	18,940
Accounts payable	2,700	1,900
Income tax payables	600	800
<b>TOTAL</b>	<u><u>70,450</u></u>	<u><u>33,740</u></u>

**Additional information:**

- A building costing RM500,000 and equipment costing RM80,000 were purchased for cash.
- The company sold equipment with a book value of RM7,000 (cost RM8,000 less accumulated depreciation RM1,000) for RM4,000 cash.
- Depreciation expense was comprised of RM800,000 for building and RM400,000 for equipment.
- Issued of long term bonds in direct exchange for land.
- Issued ordinary shares for cash.
- The company declared and paid a RM1,900,000 cash dividend.

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**Instructions:**

- (a) Prepare the Statement of Cash Flows for Standbuy Bhd for the year ended 31 December 2015 in accordance with MFRS 107 *Statement of Cash Flows* (using indirect method). (15 marks)
- (b) Based your answer in (a), analyse the cash flow performance of Standbuy Bhd. (2 marks)
- (c) Explain the purpose of cash flow statement and the information that it provides. (3 marks)

(Total: 20 marks)

**QUESTION 3****Part A**

MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* prescribes the rules for three specific areas.

**Instructions:**

- (a) Explain the accounting treatments and give an example for change in estimates and correction of an error. (6 marks)
- (b) Explain retrospective and prospective accounting treatment. (2 marks)

**PART B**

MFRS 138 *Intangible assets* deals generally on intangibles (excluding goodwill) and including internally generated intangibles classified as research and development.

**Instruction:**

Explain why the MFRS 138 prohibit the recognition of internally generated goodwill. (2 marks)

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**PART C**

- (i) MFRS 140 *Investment Property* deals with the accounting treatment of properties that are exclusively held for investment and not to be used to operate the business of an entity.

**Instruction:**

Provide **FOUR (4)** examples of investment property as stated in MFRS 140 *Investment Property*.  
(2 marks)

- (ii) On 1 October 2013, Lucky Bhd acquired a factory for investment purpose. The factory is rented out to another manufacturer. The cost of the factory was RM 200,000,000 and is expected to have useful life of 50 years with no salvage value.

At the 30 September 2014, the fair value of the factory was RM150,000,000. The fair value at 30 September 2015 was RM220,000,000.

Lucky Bhd closes its account on 30 September every year and it adopts the straight line method for depreciation of its assets.

**Instructions:**

Show the relevant journal entries (narrations are not required) for the year 2014 and 2015 if the company choose to use the:

- (a) Fair value model.

(4 marks)

- (b) Cost model.

(4 marks)

**(Total: 20 Marks)**

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## QUESTION 4

Stated below are the Statement of Financial Position of Sentosa Bhd. and Damai Bhd. on 31 December 2015.

	Sentosa Bhd	Damai Bhd
<u>Non-current assets</u>		
Land and building	104,250	231,000
Plant and machinery	75,150	240,000
Investment in Damai at cost 153,000 units	454,200	-
Total non-current assets	633,600	471,000
<u>Current assets</u>		
Inventories	79,200	90,000
Bank	65,010	117,300
Trade receivables	125,070	132,000
Total current assets	269,280	339,300
Total assets	902,880	810,300
<u>Equity</u>		
Ordinary shares of RM1 each	618,600	255,000
Share premium	91,230	115,200
Revaluation reserve	-	75,000
Retained profit	148,350	213,000
Total equity	858,180	658,200
<u>Current liabilities</u>		
Trade payables	44,700	152,100
Total current liabilities	44,700	203,100
Total equity and liabilities	902,880	810,300

Sentosa Bhd. acquired the shares of Damai Bhd. on 1 January 2015 when the shareholder funds of Damai Bhd were:

Description	RM
Share premium	115,200
Revaluation reserve	52,500
Retained profit	90,000

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**Instructions:**

- (a) Calculate the goodwill on consolidation if the non controlling interest is not measured at fair value. (2 marks)
- (b) Determine the non controlling interest amount which should be included in the Statement of Financial Position under equity section. (Show all relevant calculations including Reserve Schedule). (10 marks)
- (c) Prepare the Consolidated Statement of Financial Position as at 31 December 2015. (8 marks)

**QUESTION 5**

Sari Enterprise has a small business with the following assets; land, building, machinery, and computer. The machinery in Sari Enterprise's business, which was extremely specialised, was purchased on 1 January 2013 at cost of RM100,000. The machinery is expected to have a useful life of 5 years with only a scrap value of RM3,000.

On 31 December 2014, it was discovered that the value in use of machinery was RM30,000. The net selling price of the machinery was zero as it was a very specialized piece of machinery.

At the end of 2015, it was found that the impairment was not as bad as expected, thus the value in use of the machinery as at 31 December 2015 was RM20,000.

**Instructions:**

- (a) Explain external source of information in MRFS 136 *Impairment of Assets* as the indication for asset impairment. (4 marks)
- (b) Calculate the impairment loss and/ or reversal of an impairment loss of the machinery for Sari Enterprise for the year ended 2014 and 2015. (6 marks)
- (c) Prepare the extract Statement of Financial Position as at 31 December 2014 and as at 31 December 2015. (10 marks)

(Total: 20 marks)

End of page.